

CITY OF WINTERSET  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2016

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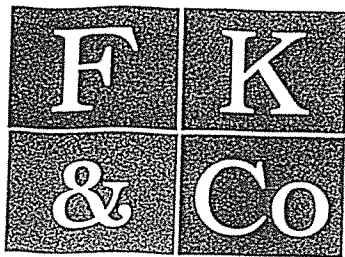
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City of Winterset

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2016)</b>		
James Olson	Mayor	January 1, 2016
Howard Harrell	Council Member	January 1, 2016
John Hunt	Council Member	January 1, 2016
Edmund Seaward	Council Member	January 1, 2018
Philip Macumber	Council Member	January 1, 2018
Stott Stover	Council Member	January 1, 2016
Mark Nitchals	City Administrator/City Clerk	Indefinite
John Casper	Attorney	Indefinite
<b>(After January 2016)</b>		
James Olson	Mayor	January 1, 2018
Howard Harrell	Council Member	January 1, 2020
Mike Fletcher	Council Member	January 1, 2020
Edmund Seaward	Council Member	January 1, 2018
Philip Macumber	Council Member	January 1, 2018
Stott Stover	Council Member	January 1, 2020
Mark Nitchals	City Administrator/City Clerk	Indefinite
John Casper	Attorney	Indefinite

City of Winterset



# FALLER, KINCHELOE & CO, PLC

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## Certified Public Accountants

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Winterset, Iowa, (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

### *Basis for Adverse Opinion on Aggregate Discretely Presented Component Units*

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

### *Adverse Opinion on Aggregate Discretely Presented Component Units*

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2016, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2015 (which is not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 33 through 37 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

*Faller, Kincheloe & Co, PLC*

FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
October 20, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Winterset (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 49.6%, or approximately \$5,350,000 from fiscal year 2015 to fiscal year 2016. Bond proceeds decreased by \$5,363,000 due to refinancing of outstanding debt in fiscal year 2015. Tax increment financing receipts decreased approximately \$90,000 due to the request of less funds in fiscal year 2016.
- Disbursements of the City's governmental activities decreased by 55.2%, or approximately \$7,291,000, in fiscal year 2016 from fiscal year 2015. Payment to refunding bond escrow agent disbursements decreased \$4,990,000, due to the pay-off of callable bonds in fiscal year 2015. In addition, capital projects disbursements decreased approximately \$2,475,000 due to a decrease in capital projects which were in progress during fiscal year 2016.
- The City's total cash basis net position decreased 11.5%, or approximately \$283,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$244,000 and the cash basis net position of the business type activities decreased approximately \$39,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds, the General Fund Accounts and the City's indebtedness.

### BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.



## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system and the garbage operations. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer Fund, considered to be a major fund of the City and the Garbage Fund, considered to be a nonmajor fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

3) Fiduciary funds account for resources held for others. The Fiduciary Fund consists of the Utility Reimbursement Fund.

The required financial statements for fiduciary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from approximately \$1.702 million to approximately \$1.458 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 507	391
Operating grants, contributions and restricted interest	816	699
Capital grants, contributions and restricted interest	8	184
General receipts:		
Property tax	2,253	2,252
Tax increment financing	1,029	1,119
Hotel motel tax	63	34
Local option sales tax	418	393
Payment in lieu of tax	204	204
Commercial/industrial tax replacement	96	-
Grants and contributions not restricted to specific purposes	-	112
Unrestricted interest on investments	4	3
Bond proceeds	-	5,363
Sale of capital assets	12	14
Miscellaneous	29	21
Total receipts	5,439	10,789
Disbursements:		
Public safety	943	921
Public works	781	574
Health and social services	5	6
Culture and recreation	1,090	1,027
Community and economic development	355	452
General government	484	451
Debt service	1,749	1,802
Capital projects	517	2,992
Payment to refunding bond escrow agent	-	4,990
Total disbursements	5,924	13,215
Change in cash basis net position before transfers	(485)	(2,426)
Transfers, net	241	235
Change in cash basis net position	(244)	(2,191)
Cash basis net position beginning of year	1,702	3,893
Cash basis net position end of year	\$ 1,458	1,702

The City's total receipts for governmental activities decreased 49.6%, or approximately \$5,350,000. The total cost of all programs and services decreased approximately \$7,291,000, or 55.2%, with no new programs added this year. The decrease in receipts was the result of bond proceeds received in fiscal year 2015. The decrease in program costs was the result of a payment of approximately \$4,990,000 to the refunding bond escrow agent in fiscal year 2015. In addition, the decrease in program costs was also due to fewer capital project costs in fiscal year 2016 compared to fiscal year 2015.

The City maintained a slight increase in the property tax dollar request for fiscal year 2016. Property tax receipts increased by approximately \$1,000 in fiscal year 2016. Property tax receipts are budgeted to remain relatively the same in fiscal year 2017.

The cost of all governmental activities this year was approximately \$5.924 million compared to approximately \$13.215 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$4.59 million because some of the cost was paid by those directly benefited from the programs (approximately \$507,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$824,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$1,274,000 to approximately \$1,331,000, principally due to increased charges for services and operating grants and contributions in fiscal year 2016 compared to fiscal year 2015.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,198	1,171
Garbage	287	278
Capital grants, contributions and restricted interest	564	7
General receipts:		
Unrestricted interest on investments	2	1
Bond proceeds	1,250	-
Total receipts	<u>3,301</u>	<u>1,457</u>
Disbursements:		
Sewer	2,814	783
Garbage	285	276
Total disbursements	<u>3,099</u>	<u>1,059</u>
Change in cash basis net position before transfers	202	398
Transfers, net	<u>(241)</u>	<u>(235)</u>
Change in cash basis net position	(39)	163
Cash basis net position beginning of year	<u>748</u>	<u>585</u>
Cash basis net position end of year	<u>\$ 709</u>	<u>748</u>

Total business type activities receipts for the fiscal year were approximately \$3.301 million compared to approximately \$1.457 million last year. The increase was due primarily due to an increase in capital grants, contributions and restricted interest. The cash balance decreased approximately \$39,000 from the prior year due to an increase in costs. Total disbursements for the fiscal year increased 192.6% to approximately \$3,099,000.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City completed the year, its governmental funds reported a combined fund balance of \$1,458,310, a decrease of more than \$244,000 below last year's total of \$1,702,850. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$226,719 from the prior year to \$722,403. The City is attempting to maintain the General Fund on a status quo basis from year to year.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$30,864 from the prior year to \$108,616. The monies in this fund can only be spent on street related costs. The City intends to use this money for future road improvement projects.
- The Special Revenue, Employee Benefits Fund cash balance increased by \$2,192 from the prior year to \$179,249. Due to uncertainty in health care insurance premium costs, the City is slowly building up a reserve in this fund should health care insurance premium costs significantly increase in the future.
- The Special Revenue, Urban Renewal Tax Fund cash balance increased by \$16,662 from the prior year to \$49,335. The City only requests an amount each year equal to the approximate amount due for the succeeding year. As a result, the balance in this fund should remain at a minimal amount on June 30.
- The Special Revenue, Low Moderate Fund cash balance increased by \$41,266 from the prior year to \$375,566. The City is struggling to find ways in order to spend this money in accordance with the requirements of the Code of Iowa. As a result, the cash balance in this fund continues to grow.
- The Debt Service Fund cash balance decreased by \$95,236 from the prior year to \$19,789. Bond principal and interest payments increased by \$9,930 in fiscal year 2016.
- The Capital Projects cash balance decreased by \$390,134 to (\$6,155). The balance in this fund is negative at June 30, 2016, due to a \$40,000 loan to the Winterset Airport Authority which was made in fiscal year 2016. It is anticipated the City will receive repayment of this loan in fiscal year 2017.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Sewer Fund cash balance decreased by \$40,849 to \$710,477. This decrease was due to costs incurred on a major capital project in fiscal year 2016.

### **BUDGETARY HIGHLIGHTS**

During the course of the year, the City amended its budget one time.

The City's receipts were \$1,175,141 less than budgeted. This was primarily due to the City receiving less miscellaneous receipts than anticipated.

The City's disbursements were \$1,548,047 less than budgeted. Disbursements in the community and economic development and the business type activities functions were \$124,196 and \$1,219,971 less than the amended budget amounts.

The original budget for fiscal year 2016 was approved by the City Council on March 2, 2015, and later amended on May 2, 2016. The budget amendment was necessitated because of capital improvement projects and insurance premiums.

### **DEBT ADMINISTRATION**

At June 30, 2016, the City had approximately \$11,945,000 in bonds and other long-term debt outstanding, compared to approximately \$12,370,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2016	2015
General obligation bonds and notes	\$ 9,260	10,690
Special assessment capital loan notes	-	20
Special assessment bonds	55	105
Sewer revenue bonds	2,580	1,455
Lease-purchase agreement	50	100
Total	\$ 11,945	12,370

Debt decreased due to the payoff of existing debt. However, the City did incur an additional \$1,250,546 in new sewer revenue bonds during the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to \$13,858,868.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$9,406,519 (including \$146,519 of development and rebate agreements) is significantly below its constitutional debt limit of \$13,858,868. Additional information about the City's long-term debt is presented in Note 3 to the financial statements. During the next few years, the bond payment schedules provide for \$1.2 million to \$1.5 million in bonds to be retired per year, which will increase debt capacity.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Winterset's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016-17 budget.

During the past few years, several outstanding bond issues were refinanced through either a current redemption or advanced refunding of future maturities. As a result, interest rates were significantly lowered and bond principal payment schedule modified, resulting a significant reduction in future debt service payments. In addition, in 2015 the opening of a new hotel and a new grocery store will have positive impacts on future tax revenues of the City of Winterset, both in terms of increased hotel/motel tax revenues and in terms of local option sales tax revenues.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mark Nitchals, City Administrator, 124 West Court Avenue, Winterset, IA 50273.

## Basic Financial Statements

## City of Winterset

## Cash Basis Statement of Activities and Net Position

Exhibit A

As of and for the year ended June 30, 2016

Functions / Programs:	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
						Total
<b>Governmental activities:</b>						
Public safety	\$ 942,743	90,323	104,136	-	(748,284)	(748,284)
Public works	781,424	65,167	641,376	-	(74,881)	(74,881)
Health and social services	5,500	-	-	-	(5,500)	(5,500)
Culture and recreation	1,090,166	244,800	67,568	-	(777,798)	(777,798)
Community and economic development	354,871	-	-	-	(354,871)	(354,871)
General government	483,743	13,692	-	-	(470,051)	(470,051)
Debt service	1,749,356	-	-	-	(1,749,356)	(1,749,356)
Capital projects	517,042	93,358	2,334	8,200	(413,150)	(413,150)
Total governmental activities	5,924,845	507,340	815,414	8,200	(4,593,891)	(4,593,891)
<b>Business type activities:</b>						
Sewer	2,814,467	1,198,099	-	564,300	-	(1,052,068)
Garbage	284,583	286,548	-	-	-	1,965
Total business type activities	3,099,050	1,484,647	-	564,300	-	(1,050,103)
<b>Total</b>	<b>\$ 9,023,895</b>	<b>1,991,987</b>	<b>815,414</b>	<b>572,500</b>	<b>(4,593,891)</b>	<b>(1,050,103)</b>
<b>General Receipts and Transfers:</b>						
Property and other city tax levied for:						
General purposes					1,909,363	1,909,363
Debt service					343,930	343,930
Tax increment financing					1,029,353	1,029,353
Hotel motel tax					62,742	62,742
Local option sales tax					418,380	418,380
Payment in lieu of tax					204,000	204,000
Commercial/industrial tax replacement					95,836	95,836
Unrestricted interest on investments					4,223	5,912
Sale of capital assets					12,386	12,386
Bond proceeds					-	1,250,546
Miscellaneous					29,308	29,308
Transfers					240,897	(240,897)
Total general receipts and transfers					4,350,418	5,361,756
Change in cash basis net position					(243,473)	(38,765)
Cash basis net position beginning of year					1,701,783	2,450,026
Cash basis net position end of year					\$ 1,458,310	2,167,788
<b>Cash Basis Net Position</b>						
Restricted:						
Expendable:						
Urban renewal purposes					\$ 49,335	49,335
Debt service					19,789	46,336
Streets					108,616	108,616
Other purposes					564,322	564,322
Unrestricted					716,248	1,399,179
<b>Total cash basis net position</b>					\$ 1,458,310	2,167,788

See notes to financial statements.

City of Winterset  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

Exhibit B

As of and for the year ended June 30, 2016

	Special Revenue								Total
	General	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment	Low Moderate Income	Debt Service	Capital Projects	Nonmajor	
Receipts:									
Property tax	\$1,420,890	-	488,471	-	-	343,932	-	-	2,253,293
Tax increment financing	-	-	-	1,029,353	-	-	-	-	1,029,353
Other city tax	481,122	-	-	-	-	-	-	-	481,122
Licenses and permits	75,271	-	-	-	-	-	-	-	75,271
Use of money and property	4,223	-	-	-	-	-	-	-	4,223
Intergovernmental	493,725	641,376	21,317	-	-	12,469	8,200	-	1,177,087
Charges for service	212,337	-	-	-	-	-	-	-	212,337
Special assessments	-	-	-	-	-	-	-	-	-
Miscellaneous	83,089	-	-	-	-	-	48,060	45,298	93,358
Total receipts	2,770,657	641,376	509,788	1,029,353	-	356,401	70,064	50,450	5,428,089
Disbursements:									
Operating:									
Public safety	756,309	-	184,470	-	-	-	-	1,964	942,743
Public works	75,321	598,127	107,976	-	-	-	-	-	781,424
Health and social services	5,500	-	-	-	-	-	-	-	5,500
Culture and recreation	922,162	-	162,505	-	-	-	-	-	1,090,166
Community and economic development	97,194	-	-	251,365	6,312	-	-	5,499	354,871
General government	432,165	-	52,645	-	-	-	-	-	484,810
Debt service	-	-	-	-	-	1,672,371	-	-	1,749,356
Capital projects	-	-	-	-	-	-	517,042	76,985	517,042
Total disbursements	2,288,651	598,127	507,596	251,365	6,312	1,672,371	517,042	84,448	5,925,912
Excess (deficiency) of receipts over (under) disbursements	482,006	43,249	2,192	777,988	(6,312)	(1,315,970)	(446,978)	(33,998)	(497,823)
Other financing sources (uses):									
Sale of capital assets	12,386	-	-	-	-	-	-	-	12,386
Transfers in	38,190	-	-	-	59,701	1,220,734	79,844	23,000	1,421,469
Transfers out	(305,863)	(74,113)	-	(761,326)	(12,123)	-	(23,000)	(4,147)	(1,180,572)
Total other financing sources (uses)	(255,287)	(74,113)	-	(761,326)	47,578	1,220,734	56,844	18,853	253,283
Change in cash balances	226,719	(30,864)	2,192	16,662	41,266	(95,236)	(390,134)	(15,145)	(244,540)
Cash balances beginning of year	495,684	139,480	177,057	32,673	334,300	115,025	383,979	24,652	1,702,850
Cash balances end of year	\$ 722,403	108,616	179,249	49,335	375,566	19,789	(6,155)	9,507	1,458,310
Cash Basis Fund Balances									
Restricted for:									
Urban renewal purposes	\$ -	-	-	49,335	-	-	-	-	49,335
Debt service	-	-	-	-	-	19,789	-	-	19,789
Streets	-	108,616	-	-	-	-	-	-	108,616
Other purposes	-	-	179,249	-	375,566	-	-	9,507	564,322
Assigned for local option sales tax purposes	394,686	-	-	-	-	-	-	-	394,686
Unassigned	327,717	-	-	-	-	-	(6,155)	-	321,562
Total cash basis fund balances	\$ 722,403	108,616	179,249	49,335	375,566	19,789	(6,155)	9,507	1,458,310

See notes to financial statements.



City of Winterset

Exhibit C

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Governmental Funds

As of and for the year ended June 30, 2016

Total governmental funds cash balances (page 16)

\$ 1,458,310

*Amounts reported for governmental activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

Cash basis net position of governmental activities (page 15)

\$ 1,458,310

Change in cash balances (page 16)

\$ (244,540)

*Amounts reported for governmental activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

Change in cash basis net position of governmental activities (page 15)

1,067  
\$ (243,473)

See notes to financial statements.

## City of Winterset

Exhibit D

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise			Internal Service Health Insurance
	Sewer	Nonmajor - Garbage	Total	
Operating receipts:				
Use of money and property	\$ 1,689	-	1,689	-
Charges for service	1,198,099	286,548	1,484,647	136,693
Total operating receipts	1,199,788	286,548	1,486,336	136,693
Operating disbursements:				
Public safety	-	-	-	24,629
Public works	-	-	-	67,273
Culture and recreation	-	-	-	22,094
General government	-	-	-	6,295
Business type activities	584,602	284,595	869,197	15,204
Total operating disbursements	584,602	284,595	869,197	135,495
Excess of operating receipts over operating disbursements	615,186	1,953	617,139	1,198
Non-operating receipts (disbursements):				
Bond proceeds	1,250,546	-	1,250,546	-
Intergovernmental	564,300	-	564,300	-
Debt service	(223,330)	-	(223,330)	-
Capital projects	(2,006,654)	-	(2,006,654)	-
Net non-operating receipts (disbursements)	(415,138)	-	(415,138)	-
Excess of receipts over disbursements	200,048	1,953	202,001	1,198
Other financing sources (uses):				
Transfers out	(240,897)	-	(240,897)	-
Total other financing sources (uses)	(240,897)	-	(240,897)	-
Change in cash balances	(40,849)	1,953	(38,896)	1,198
Cash balances beginning of year	751,326	(2,952)	748,374	(1,198)
Cash balances end of year	\$ 710,477	(999)	709,478	-
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 26,547	-	26,547	-
Unrestricted	683,930	(999)	682,931	-
Total cash basis fund balances	\$ 710,477	(999)	709,478	-

See notes to financial statements.

City of Winterset

Exhibit E

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Proprietary Funds

As of and for the year ended June 30, 2016

Total enterprise funds cash balances (page 18)	\$ 709,478
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*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

Cash basis net position of business type activities (page 15)	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 709,478</div>
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Change in cash balances (page 18)	\$ (38,896)
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*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

Change in cash basis net position of business type activities (page 15)	<div style="border-top: 1px solid black; border-bottom: 3px double black;"> <div style="border-top: 1px solid black; border-bottom: 1px solid black; display: inline-block;">131</div>  \$ (38,765) </div>
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See notes to financial statements.

City of Winterset

Exhibit F

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Fiduciary Fund

As of and for the year ended June 30, 2016

	<u>Agency</u>
	<u>Utility</u>
	<u>Reimbursement</u>
Additions:	
Miscellaneous	
Total additions	<u>\$ 1,162,870</u>
	<u>1,162,870</u>
Deductions:	
Miscellaneous	
Total deductions	<u>1,162,870</u>
	<u>1,162,870</u>
Change in cash balances	-
Cash balances beginning of year	-
Cash balances end of year	<u>\$ -</u>

See notes to financial statements.

City of Winterset

Notes to Financial Statements

June 30, 2016

(1) **Summary of Significant Accounting Policies**

The City of Winterset (City) is a political subdivision of the State of Iowa located in Madison County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general governmental services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Winterset Municipal Utilities was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council. The Utilities' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Utilities administrative office.

The Winterset Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Winterset City Council who serve at the pleasure of the City Council. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented.

The Friends of the Winterset Public Library has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Winterset Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Friends of the Winterset Public Library meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Friends of the Winterset Public Library are substantially for the direct benefit of the City of Winterset Public Library.

The Winterset Firefighters Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Winterset Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Winterset Firefighters Association, Inc. meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Winterset Firefighters Association, Inc. are substantially for the direct benefit of the City of Winterset Fire Department.

#### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Madison County Emergency Management Commission, Central Iowa Regional Transportation Planning Alliance Board, Fire Mutual Aid Executive Board, Madison County Assessor's Conference Board, South Central Iowa Landfill Agency, and the Central Iowa Regional Housing Authority.

#### B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as nonmajor governmental funds. A combining schedule is also provided for the General Fund accounts.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

#### Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is utilized to account for property tax and other receipts to be used for the payment of employee benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Low Moderate Income Fund is used to account for the low to moderate income monies received to be used for the low to moderate income program disbursements in the City.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following proprietary fund:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

#### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 72.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, special assessment bonds and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 1,315,000	186,363	55,000	2,230
2018	1,335,000	165,463	-	-
2019	1,150,000	142,708	-	-
2020	1,215,000	122,208	-	-
2021	1,215,000	99,308	-	-
2022-2026	3,030,000	160,042	-	-
2027-2031	-	-	-	-
2032	-	-	-	-
	<u>\$ 9,260,000</u>	<u>876,092</u>	<u>55,000</u>	<u>2,230</u>



Year Ending June 30,	Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2017	\$ 120,000	36,522	1,490,000	225,115
2018	124,000	33,784	1,459,000	199,247
2019	128,000	30,963	1,278,000	173,671
2020	133,000	28,048	1,348,000	150,256
2021	58,000	25,020	1,273,000	124,328
2022-2026	320,000	97,800	3,350,000	257,842
2027-2031	374,000	46,710	374,000	46,710
2032	82,000	2,460	82,000	2,460
	<u>\$ 1,339,000</u>	<u>301,307</u>	<u>10,654,000</u>	<u>1,179,629</u>

Special Assessment Bonds - The City has pledged future special assessment receipts to repay the special assessment capital loan notes and special assessment bonds issued in May 2001 and June 2007. Proceeds of the notes and bonds provided financing for street improvements. The bonds are payable solely from the proceeds of the special assessment funds collected and are payable through fiscal year 2017. Annual principal and interest payments on the bonds are expected to require over 100% of net receipts. The total principal and interest remaining to be paid on the bonds is \$57,230. For the current year, principal and interest paid and total collections were \$75,985 and \$45,298, respectively.

#### Sewer Revenue Bonds

On October 2, 2015, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of sewer revenue bonds up to \$1,400,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements to the sanitary sewer system. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. At June 30, 2016, the City had drawn down \$1,250,546 of the authorized amount. An initiation fee of \$7,000 (0.5% of the authorized borrowing for the water revenue bonds) was charged by the IFA. The initiation fee was withheld from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2016. A final repayment schedule has not yet been adopted. During year ended June 30, 2016, the City paid principal of \$10,000 and interest of \$5,248 on the bonds under a preliminary repayment schedule.

The City has pledged future wastewater customer receipts, net of specified operating disbursements, to repay \$3,960,000 in sewer revenue bonds issued in January 2000, June 2012 and in October, 2015. The bonds are payable solely from wastewater customer net receipts and are payable through 2032. Annual principal and interest payment on the bonds are expected to require less than 28% of net receipts. The total principal and interest remaining to be paid on the bonds issued in January, 2000 and June, 2012 is \$1,640,307. For the current year, principal and interest paid and total customer net receipts were \$170,411 and \$615,186, respectively.

The resolutions providing for the issuance of the wastewater revenue bonds include the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.

- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a wastewater revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the sewer system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The City did not properly fund the wastewater revenue bond and interest sinking account as required.

**(4) Lease Purchase Agreement**

On November 20, 2006, the City entered into a lease-purchase agreement for a sewer lift station. The City owes \$50,000 in lease principal and \$0 of interest in fiscal year 2017 on this lease. Once this payment is made in fiscal year 2017, the lease purchase agreement will be paid off.

Payments under this lease-purchase agreement totaled \$50,000 during the year ended June 30, 2016. The payment was made from the Enterprise, Sewer Fund.

**(5) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.56% of pay and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$203,837.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$1,163,434 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.023549%, which was an increase of 0.000275% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows and deferred inflows totaled \$119,682, \$289,144 and \$378,326, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.

Wage growth  
(effective June 30, 1990)

4.00% per annum, based on 3.00% inflation  
and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 2,322,595	1,163,434	185,383

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(6) Loan Receivable**

In fiscal year 2016, the City loaned \$40,000 to the Winterset Airport Authority, a component unit of the City of Winterset. This is a no interest rate loan without repayment terms. However, it is expected that this loan will be paid off in fiscal year 2017.

**(7) Development Agreements**

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings and infrastructure. Each payment represents the incremental property tax received by the City with respect to the incremental value of the property, reduced by the minimum amount required by Section 403.22 of the Code of Iowa. The related low and moderate set aside amount shall be retained by the City for the purpose of providing assistance to low and moderate income families. The remaining total to be paid by the City under the agreements is not to exceed \$4,091,447.

The City rebated \$251,365 to the developers during fiscal year 2016, for a total of \$1,372,066 of incremental property tax rebated under the agreements. The outstanding balance of the agreements at June 30, 2016 with fixed dollar commitments was \$146,519. The outstanding balance of the agreements at June 30, 2016 subject to annual appropriation was \$3,944,928.

**(8) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2016, was \$220,513. Of this \$220,513, a total of \$135,347 relates to the City and \$85,166 relates to the activities of the Winterset Municipal Utilities. All employees are City employees, and the Winterset Municipal Utilities reimburses the City for all payroll related costs, including reimbursement to the City for vacation and sick time costs for those employees who perform activities for the Winterset Municipal Utilities. The liability has been computed based on rates of pay in effect at June 30, 2016.

**(9) Employee Health Insurance Plan**

The City has a group insurance policy through Wellmark which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. The City provides for an insured benefit through Wellmark with a plan deductible of \$2,000 and \$4,000 for single and family coverage, respectively. The City partially self-funds the deductibles for \$1,750 and \$3,500 for single and family coverage, respectively.

The City contracted with TASC to administer the portion of health claims self-funded by the City. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to TASC from the various City funds. The financial activities of the employee health insurance plan are accounted for in the Internal Service, Health Insurance Fund. During the year ended June 30, 2016, the City paid \$74,200 to TASC for claims and administrative fees. The agreement with TASC ended on December 31, 2015.

Effective January 1, 2016, the City contracts with Employee Benefit Systems (EBS) to administer the portion of health claims self-funded by the City. Under the administrative services agreement, the City pays EBS a monthly fee to administer the program. EBS initiates the checks to reimburse the employees, with the checks coming out of the City's bank account. The financial activities of the employee health insurance plan are accounted for in the Internal Service, Health Insurance Fund. During the year ended June 30, 2016, the City reimbursed its employees \$62,493 in relation to this program.

**(10) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Low Moderate Income	\$ 12,123
	Enterprise:	
	Sewer	26,067
		<u>38,190</u>
Special Revenue:	Special Revenue:	
Low Moderate Income	Urban Renewal Tax Increment	59,701
		<u>59,701</u>
Special Revenue:		
Special Assessment	Capital Projects	23,000
		<u>23,000</u>
Debt Service	General	230,166
	Special Revenue:	
	Road Use Tax	74,113
	Urban Renewal Tax Increment	701,625
	Enterprise:	
	Sewer	214,830
		<u>1,220,734</u>
Capital Projects	General	75,397
	Special Revenue:	
	Raffle and Gaming	4,147
		<u>79,544</u>
		<u>79,544</u>
	Total	<u>\$ 1,421,169</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(11) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(12) Deficit Balances**

The Capital Projects Fund and the Enterprise, Garbage Fund had deficit balances of \$6,155 and \$999, respectively, at June 30, 2016. These deficits were caused by spending more monies than available in these funds. It is anticipated that these deficits will be eliminated through charge for service fee increases and from a repayment of a loan receivable.

**(13) Contingency**

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

**(14) Commitments**

The City received a \$500,000 grant from the State of Iowa for costs associated with refurbishing and moving a bridge. As of audit report date, minimal costs have been incurred on this project. This project is expected to be completed in fiscal year 2017.

The City has committed \$10,000 per year for the next four years to the Iowa Quilt Museum.

The City has entered into an agreement for sewer improvements. As of June 30, 2016, approximately \$115,000 remains to be paid on this project. The City intends to pay for these costs from existing cash reserves and from a loan from the State of Iowa.

**(15) Subsequent Events**

The City has entered into multiple agreements for the construction of various infrastructure projects. These projects will cost approximately \$1,000,000. These projects consist of recreation, street, bridge and mechanical work performed at City Hall. Costs on these projects will be paid for as work progresses. The City intends to pay for these costs from existing cash reserves and from borrowing funds.

The City has evaluated all subsequent events through October 20, 2016, the date the financial statements were available to be issued.

**(16) New Accounting Pronouncement**

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

## Other Information



City of Winterset  
Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgetd Amounts		Final to Total Variance
					Original	Final	
<b>Receipts:</b>							
Property tax	\$ 2,253,293	-	-	2,253,293	2,227,952	2,227,952	25,341
Tax increment financing	1,029,353	-	-	1,029,353	1,104,405	1,104,405	(75,052)
Other city tax	481,122	-	-	481,122	435,088	479,678	1,444
Licenses and permits	75,271	-	-	75,271	44,975	68,975	6,296
Use of money and property	4,223	1,689	-	5,912	4,550	4,550	1,362
Intergovernmental	1,177,087	564,300	-	1,741,387	1,562,852	1,666,806	74,581
Charges for service	212,337	1,621,340	136,693	1,696,984	1,687,250	1,687,250	9,734
Special assessments	93,358	-	-	93,358	142,000	100,000	(6,642)
Miscellaneous	102,045	-	-	102,045	1,204,000	1,314,250	(1,212,205)
<b>Total receipts</b>	<b>5,428,089</b>	<b>2,187,329</b>	<b>136,693</b>	<b>7,478,725</b>	<b>8,413,072</b>	<b>8,653,866</b>	<b>(1,175,141)</b>
<b>Disbursements:</b>							
Public safety	942,743	24,629	24,629	942,743	939,419	974,419	31,676
Public works	781,424	67,273	67,273	781,424	661,966	791,966	10,542
Health and social services	5,500	-	-	5,500	5,500	5,500	-
Culture and recreation	1,090,166	22,094	22,094	1,090,166	1,117,465	1,117,465	27,299
Community and economic development	354,871	-	-	354,871	479,067	479,067	124,196
General government	484,810	6,295	6,295	484,810	461,215	514,215	29,405
Debt service	1,749,356	-	-	1,749,356	1,738,816	1,750,356	1,000
Capital projects	517,042	-	-	517,042	223,000	621,000	103,958
Business type activities	-	3,114,385	15,204	3,099,181	3,579,152	4,319,152	1,219,971
<b>Total disbursements</b>	<b>5,925,912</b>	<b>3,234,676</b>	<b>135,495</b>	<b>9,025,093</b>	<b>9,205,600</b>	<b>10,573,140</b>	<b>1,548,047</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(497,823)</b>	<b>(1,047,347)</b>	<b>1,198</b>	<b>(1,546,368)</b>	<b>(792,528)</b>	<b>(1,919,274)</b>	<b>372,906</b>
<b>Other financing sources, net</b>	<b>253,283</b>	<b>1,009,649</b>	<b>-</b>	<b>1,262,932</b>	<b>720,000</b>	<b>1,320,000</b>	<b>(57,068)</b>
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>(244,540)</b>	<b>(37,698)</b>	<b>1,198</b>	<b>(283,436)</b>	<b>(72,528)</b>	<b>(599,274)</b>	<b>315,838</b>
<b>Balances beginning of year</b>	<b>1,702,850</b>	<b>747,176</b>	<b>(1,198)</b>	<b>2,451,224</b>	<b>1,632,560</b>	<b>2,451,223</b>	<b>1</b>
<b>Balances end of year</b>	<b>\$ 1,458,310</b>	<b>709,478</b>	<b>-</b>	<b>2,167,788</b>	<b>1,560,032</b>	<b>1,851,949</b>	<b>315,839</b>

See accompanying independent auditor's report.

City of Winterset

Notes to Other Information - Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,367,540. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

City of Winterset

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.023549%	0.023274%
City's proportionate share of the net pension liability	\$ 1,163	923
City's covered employee payroll	\$ 2,160	2,165
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	53.84%	42.63%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding fiscal year.

See accompanying independent auditor's report.

City of Winterset

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years  
(In Thousands)

Other Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 204	198	199	188	173	151	143	134	125	118
Contributions in relation to the statutorily required contribution	(204)	(198)	(199)	(188)	(173)	(151)	(143)	(134)	(125)	(118)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 2,208	2,160	2,165	2,094	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	9.24%	9.17%	9.19%	8.98%	*	*	*	*	*	*

\* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee payroll could not be calculated.

See accompanying independent auditor's report.

City of Winterset

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## Supplementary Information

## City of Winterset

Schedule 1

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue				
	Park and Recreation Projects	Police Special Project	Raffle and Gaming	Special Assessment	Total
Receipts:					
Special assessments	\$ -	-	-	45,298	45,298
Miscellaneous	505	500	4,147	-	5,152
Total receipts	505	500	4,147	45,298	50,450
Disbursements:					
Operating:					
Public safety	-	1,964	-	-	1,964
Culture and recreation	5,499	-	-	-	5,499
Debt service	-	-	-	76,985	76,985
Total disbursements	5,499	1,964	-	76,985	84,448
Excess (deficiency) of receipts over (under) disbursements	(4,994)	(1,464)	4,147	(31,687)	(33,998)
Other financing sources (uses):					
Transfers in	-	-	-	23,000	23,000
Transfers out	-	-	(4,147)	-	(4,147)
Total other financing sources (uses)	-	-	(4,147)	23,000	18,853
Change in cash balances	(4,994)	(1,464)	-	(8,687)	(15,145)
Cash balances beginning of year	13,048	1,964	-	9,640	24,652
Cash balances end of year	\$ 8,054	500	-	953	9,507
<b>Cash Basis Fund Balances</b>					
Restricted for other purposes	\$ 8,054	500	-	953	9,507
Total cash basis fund balances	\$ 8,054	500	-	953	9,507

See accompanying independent auditor's report.

## City of Winterset

## Schedule 2

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
General Fund Accounts

As of and for the year ended June 30, 2016

	General	Local Option Sales Tax	Total
<b>Receipts:</b>			
Property tax	\$ 1,420,890	-	1,420,890
Other city tax	62,742	418,380	481,122
Licenses and permits	75,271	-	75,271
Use of money and property	3,171	1,052	4,223
Intergovernmental	493,725	-	493,725
Charges for service	212,337	-	212,337
Miscellaneous	83,089	-	83,089
Total receipts	2,351,225	419,432	2,770,657
<b>Disbursements:</b>			
Operating:			
Public safety	756,309	-	756,309
Public works	75,321	-	75,321
Health and social services	5,500	-	5,500
Culture and recreation	922,162	-	922,162
Community and economic development	97,194	-	97,194
General government	432,165	-	432,165
Total disbursements	2,288,651	-	2,288,651
Excess of receipts over disbursements	62,574	419,432	482,006
<b>Other financing sources (uses):</b>			
Sale of capital assets	12,386	-	12,386
Transfers in	38,190	-	38,190
Transfers out	(25,384)	(280,479)	(305,863)
Total other financing sources (uses)	25,192	(280,479)	(255,287)
Change in cash balances	87,766	138,953	226,719
Cash balances beginning of year	239,951	255,733	495,684
Cash balances end of year	\$ 327,717	394,686	722,403
<b>Cash Basis Fund Balances</b>			
Assigned for local option sales tax purposes	\$ -	394,686	394,686
Unassigned	327,717	-	327,717
Total cash basis fund balances	\$ 327,717	394,686	722,403

See accompanying independent auditor's report.



City of Winterset

Schedule 3

Schedule of Indebtedness

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<b>General obligation bonds and notes:</b>									
Corporate purpose and refunding	June 23, 2011	0.65-3.45%	\$ 2,685,000	1,670,000	-	265,000	1,405,000	43,943	-
Corporate purpose and refunding	March 29, 2012	0.45-2.15%	4,860,000	3,620,000	-	475,000	3,145,000	49,625	-
Street trucks	July 5, 2012	0.45-0.80%	310,000	80,000	-	80,000	-	640	-
Corporate purpose and refunding	March 12, 2015	2.00-2.50%	5,320,000	5,320,000	-	610,000	4,710,000	138,163	-
<b>Total</b>				<u>\$10,690,000</u>	<u>-</u>	<u>1,430,000</u>	<u>9,260,000</u>	<u>232,371</u>	<u>-</u>
<b>Special assessment capital loan notes:</b>									
Paving projects	May 1, 2001	4.50-5.90%	\$ 255,000	20,000	-	20,000	-	1,180	-
<b>Total</b>				<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>1,180</u>	<u>-</u>
<b>Special assessment bonds:</b>									
Street improvements	June 15, 2007	4.25-4.60%	\$ 505,000	105,000	-	50,000	55,000	4,805	-
<b>Total</b>				<u>105,000</u>	<u>-</u>	<u>50,000</u>	<u>55,000</u>	<u>4,805</u>	<u>-</u>
<b>Sewer revenue bonds:</b>									
Sewer refund bonds, Series 2000A	January 17, 2000	1.75%	\$ 225,951	74,000	-	14,000	60,000	1,295	-
Sewer refund bonds, Series 2000B	January 17, 2000	1.75%	874,049	285,000	-	53,000	232,000	4,988	-
Sewer bonds, Series 2012	June 15, 2012	3.00%	1,460,000	1,096,000	-	49,000	1,047,000	32,880	-
Sewer revenue bonds, Series 2015	October 2, 2015	1.75%	1,400,000	-	1,250,546	10,000	1,240,546	5,248	-
<b>Total</b>				<u>\$ 1,455,000</u>	<u>1,250,546</u>	<u>126,000</u>	<u>2,579,546</u>	<u>44,411</u>	<u>-</u>
<b>Lease Purchase Agreement:</b>									
Equipment	November 20, 2006	0.00%	\$ 500,000	100,000	-	50,000	50,000	-	-

See accompanying independent auditor's report.

## City of Winterset

## Bond and Note Maturities

Schedule 4

June 30, 2016

General Obligation Bonds and Notes									
Year Ending June 30,	Corporate Purpose and Refunding Issued June 23, 2011		Corporate Purpose and Refunding Issued March 29, 2012		Corporate Purpose and Refunding Issued March 12, 2015				
	Interest		Interest		Interest				
	Rates	Amount	Rates	Amount	Rates	Amount	Total		
2017	2.00%	\$ 165,000	1.00%	\$ 540,000	2.00%	\$ 610,000	1,315,000		
2018	2.50%	165,000	1.10%	530,000	2.00%	640,000	1,335,000		
2019	2.50%	165,000	1.30%	475,000	2.00%	510,000	1,150,000		
2020	2.50%	170,000	1.55%	500,000	2.00%	545,000	1,215,000		
2021	2.95%	175,000	1.75%	510,000	2.00%	530,000	1,215,000		
2022	3.10%	185,000	1.95%	470,000	2.00%	495,000	1,150,000		
2023	3.25%	185,000	2.15%	120,000	2.50%	535,000	840,000		
2024	3.45%	195,000	-	-	2.50%	535,000	730,000		
2025	-	-	-	-	2.50%	310,000	310,000		
		<u>\$ 1,405,000</u>		<u>\$ 3,145,000</u>		<u>\$ 4,710,000</u>	<u>9,260,000</u>		

Sewer Revenue Bonds									
Year Ending June 30,	Special Assessment Bonds Street Improvements Issued June 15, 2007		Sewer Refund Bonds, Series 2000A Issued January 17, 2000		Sewer Refund Bonds, Series 2000B Issued January 17, 2000		Sewer Bonds, Series 2012 Issued June 15, 2012		
	Interest		Interest		Interest		Interest		Total
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2017	4.60%	\$ 55,000	1.75%	\$ 14,000	1.75%	\$ 55,000	3.00%	\$ 51,000	120,000
2018	-	-	1.75%	15,000	1.75%	57,000	3.00%	52,000	124,000
2019	-	-	1.75%	15,000	1.75%	59,000	3.00%	54,000	128,000
2020	-	-	1.75%	16,000	1.75%	61,000	3.00%	56,000	133,000
2021	-	-	-	-	-	-	3.00%	58,000	58,000
2022	-	-	-	-	-	-	3.00%	60,000	60,000
2023	-	-	-	-	-	-	3.00%	62,000	62,000
2024	-	-	-	-	-	-	3.00%	64,000	64,000
2025	-	-	-	-	-	-	3.00%	66,000	66,000
2026	-	-	-	-	-	-	3.00%	68,000	68,000
2027	-	-	-	-	-	-	3.00%	70,000	70,000
2028	-	-	-	-	-	-	3.00%	72,000	72,000
2029	-	-	-	-	-	-	3.00%	75,000	75,000
2030	-	-	-	-	-	-	3.00%	77,000	77,000
2031	-	-	-	-	-	-	3.00%	80,000	80,000
2032	-	-	-	-	-	-	3.00%	82,000	82,000
		<u>\$ 55,000</u>		<u>\$ 60,000</u>		<u>\$ 232,000</u>		<u>\$ 1,047,000</u>	<u>1,339,000</u>

See accompanying independent auditor's report.

City of Winterset

Schedule 5

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

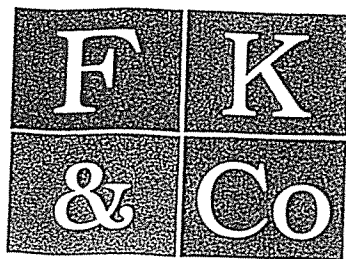
For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Receipts:</b>										
Property tax	\$ 2,253,293	2,251,690	2,280,238	2,229,740	2,260,712	2,208,640	2,135,381	2,145,121	1,930,397	1,878,135
Tax increment financing	1,029,353	1,119,476	1,016,949	1,055,065	1,026,990	1,103,473	1,003,062	750,648	863,628	801,663
Other city tax	481,122	431,768	351,116	359,687	365,294	355,836	308,647	325,975	354,607	322,460
Licenses and permits	75,271	47,126	45,466	46,766	46,013	39,302	21,738	40,075	33,710	27,486
Use of money and property	4,223	4,543	7,388	9,622	24,265	16,330	17,135	16,996	81,758	83,292
Intergovernmental	1,177,087	1,156,329	910,853	960,523	840,987	973,494	781,742	739,943	747,580	711,213
Charges for service	212,337	219,369	201,735	183,975	226,139	206,378	208,278	188,611	183,557	182,917
Special assessments	93,358	78,960	90,567	136,755	167,978	176,708	820,527	222,843	254,420	170,804
Miscellaneous	102,045	101,867	154,048	163,378	160,714	143,483	168,197	208,042	211,335	375,817
<b>Total</b>	<b>\$ 5,428,089</b>	<b>5,411,128</b>	<b>5,058,360</b>	<b>5,145,511</b>	<b>5,119,092</b>	<b>5,223,644</b>	<b>5,464,707</b>	<b>4,638,254</b>	<b>4,660,992</b>	<b>4,553,787</b>

Disbursements:

<b>Operating:</b>										
Public safety	\$ 942,743	917,948	937,455	885,614	877,143	877,143	831,732	826,361	776,276	907,983
Public works	781,424	567,838	670,639	603,433	545,014	545,014	507,351	580,460	561,060	530,304
Health and social services	5,500	5,500	4,500	4,500	5,300	5,300	4,500	4,500	4,500	3,000
Culture and recreation	1,090,166	1,025,330	1,097,073	1,053,366	1,099,506	1,099,506	1,002,727	1,052,825	963,149	878,881
Community and economic development	354,871	451,994	298,788	391,483	370,254	370,254	300,625	254,724	260,223	337,126
General government	484,810	450,541	461,992	405,879	419,350	419,350	396,016	396,990	385,613	410,333
Debt service	1,749,356	1,801,631	3,787,139	5,532,261	3,494,626	3,494,626	2,859,284	1,648,843	2,260,080	1,314,041
Capital projects	517,042	2,992,343	320,033	1,047,797	290,246	290,246	1,298,596	1,653,750	1,263,763	4,107,189
Business type activities	-	-	-	-	-	-	-	-	965	-
<b>Total</b>	<b>\$ 5,925,912</b>	<b>8,213,125</b>	<b>7,577,619</b>	<b>9,924,333</b>	<b>7,101,439</b>	<b>7,101,439</b>	<b>7,200,831</b>	<b>6,418,453</b>	<b>6,475,629</b>	<b>8,488,857</b>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Winterset, Iowa (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 20, 2016. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Winterset Municipal Utilities, the Winterset Airport Authority, the Friends of the Winterset Public Library and the Winterset Firefighters Association, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C) and (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (D) to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
October 20, 2016

City of Winterset

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City of Winterset, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response acknowledged.

City of Winterset

Schedule of Findings

Year ended June 30, 2016

- (C) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city and all expenditures...." We noted a debt issue which was not recorded on the City's Annual Financial Report.

Recommendation – The City should ensure future Annual Financial Reports are supported by the City's records.

Response – The differences primarily relate to the accounting records of the Winterset Municipal Utilities. We will attempt to implement this recommendation in the future.

Conclusion – Response acknowledged.

- (D) Chart of Accounts - The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee on July 8, 2015.

Recommendation - To provide better financial information and control, the COA, or its equivalent, should be followed.

Response – The City will implement this recommendation.

Conclusion – Response acknowledged.

- (E) Receipts - The City Library and City Pool collects fees and periodically remits those collections to the City Clerk for deposit. Documentation supporting these collections was inadequate to determine the amounts which should have been collected and remitted to the City Clerk for deposit.

Recommendation – To strengthen the control over the accountability for City Library and City Pool collections, an initial record of all monies received should be documented. In addition, documentation of the initial record of receipt should be reconciled to the monies on hand by an independent person. The monies and the initial record of receipt should then be remitted to the City Clerk for deposit.

Response – We will review our procedures in relation to this.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Winterset  
Schedule of Findings  
Year ended June 30, 2016

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – The wastewater revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/6 of the principal and 1/12 of the interest coming due be made to the sinking account. We noted that the City did not properly fund a sinking account for the wastewater revenue bonds.

Recommendation – The City should implement procedures to ensure the wastewater revenue bond and interest sinking account requirements are met.

Response – We did not take into account the new bond issue in 2016 in our calculations. We will implement this recommendation taking into account the new bond issue in the future.

Conclusion – Response acknowledged.

- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$6,155 at June 30, 2016. The Enterprise, Garbage Fund had a deficit balance of \$999 at June 30, 2016.

The Special Revenue, Low Moderate Income Fund had a balance of \$375,566 at June 30, 2016. Total disbursements charged to this fund in fiscal year 2016 was \$6,312. As a result, the balance in this fund may be excessive.

Recommendation – The City should implement procedures to eliminate the deficits in the Capital Projects Fund and the Enterprise, Garbage Fund in order to return these funds to a sound financial position. The City should also ensure the balance in the Special Revenue, Low Moderate Income Fund is reasonable.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.



City of Winterset

Schedule of Findings

Year ended June 30, 2016

(10) Payroll – Some employee wages were not reported to the Iowa Workforce Development, as required.

Recommendation – All employee wages should be reported to the Iowa Workforce Development, as required.

Response – This was an oversight on our part, and has been corrected.

Conclusion – Response acknowledged.

(11) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

We noted the following regarding the City's TIF debt certifications to the County Auditor:

- The certifications include \$2,385,234 of payments relating to rebate and economic development agreement obligations which include an annual appropriation clause. Until appropriated, these payments do not represent debt and, accordingly, should not have been certified as debt.
- The City had no TIF debt outstanding in the Corkrean & Watts TIF subfund at June 30, 2016. The City had cash on hand of \$65,831 in the Corkrean & Watts TIF subfund at June 30, 2016. Therefore, the City has \$65,831 more cash on hand than is needed to pay the TIF debt outstanding in the Corkrean & Watts subfund. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF subfund ceases to exist, the excess balance remaining in the subfund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of these issues. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification. We also recommend the City remit \$65,831 from the Special Revenue, Urban Renewal Tax Increment Fund to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

Response – The City will consult TIF legal counsel, make corrections to the TIF certification and ensure the future certifications are in compliance with the Code of Iowa requirements.

Conclusion – Response acknowledged.

(12) Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1, except that the activity of the Special Revenue, Urban Renewal Tax Increment Fund, including beginning and ending TIF obligations, beginning and ending cash balances, and the disbursements reported on the Levy Authority Summary do not agree to the City's general ledger.

Recommendation – The City should ensure the TIF obligations, cash balances, and the disbursement amounts reported on the Levy Authority Summary agree with the City's records.

City of Winterset

Schedule of Findings

Year ended June 30, 2016

Response – These items will be corrected on our next year's report.

Conclusion – Response acknowledged.